

The 2003-04 Assembly Budget Bill AB 100 (Oropeza)

LEGISLATIVE ANALYST'S OFFICE

As Adopted by the
Budget Committee

June 2, 2003





2003-04 General Fund Condition

(In Millions)

	Governor's Budget (May Revision)	Assembly Version	Difference
Prior-year fund balance	\$1,410	\$1,520	\$110
Revenues and transfers	70,934	71,861	927
Total resources available	\$72,344	\$73,381	\$1,037
Expenditures	70,433	71,965	1,532
Ending fund balance	\$1,911	\$1,416	-\$495
Encumbrances	1,402	1,402	—
Reserve	\$509	\$14	-\$495



Reserve. The Assembly version results in a 2003-04 year-end reserve of \$14 million, which is \$495 million less than the \$509 million in the May Revision. Like the May Revision, it assumes a \$10.7 billion deficit financing bond to eliminate the 2002-03 deficit.



Revenues. The Assembly version assumes total revenues and transfers of \$71.9 billion, which is \$927 million more than the May Revision. The Assembly version assumes the LAO revenue forecast (\$587 million higher than the administration in the current and budget years). It also includes a \$500 million loan from the Transportation Investment Fund.



Expenditures. The Assembly's General Fund expenditure total is \$72.0 billion, which is \$1.5 billion higher than the May Revision. A significant part of this net increase reflects restoration of reductions in health and transportation programs.



Major Features



Deficit Financing Bond

- Assumes proceeds from sale of \$10.7 billion bond to eliminate 2002-03 deficit.



K-12 Education—Proposition 98

- Provides the same 2003-04 Proposition 98 funding level as the May Revision—\$41.2 billion.
- Adopts \$1.6 billion in funding increases to pay for pupil attendance growth, increased PERS costs, and net funding deferrals. Adopts \$2.0 billion in targeted program reductions including revenue limits (general purpose funds), instructional materials, and deferred maintenance.



Higher Education

- Makes additional unallocated reductions in General Fund support for the University of California (UC) and the California State University (CSU), offset in part by restoration of some proposed reductions (such as for outreach).
- Funds proposed enrollment growth of about seven percent for UC and CSU and assumes fee increases of 25 percent.
- Restores \$210 million in California Community Colleges (CCC) funding by “shifting” it to the 2004-05 fiscal year in order to reduce the level of Proposition 98 appropriations in 2003-04.
- Authorizes an increase in CCC fees from \$11 to \$15 per unit (instead of the \$18 level proposed by the Governor).



Health and Social Services

- Adopts the Governor’s revised realignment plan that results in General Fund savings of \$1.7 billion, pending enactment



Major Features

(continued)

of legislation. The revised plan (1) increases the county share of costs in several programs (primarily CalWORKs, Child Welfare Services, Foster Care, and Mental Health) and (2) provides the counties with commensurate revenues from higher tobacco taxes and the creation of a new 10.3 percent personal income tax bracket.

- Accepts Governor's proposed CalWORKs and SSI/SSP COLA suspensions.
- Provides a net increase of about \$916 million (General Fund) for health programs above the funding level proposed in the May Revision, due primarily to the rejection of major budget reduction proposals affecting eligibility, services, and rates paid to providers. (This increase does not take into account offsets to spending discussed below due to federal funds.)
- Assumes the receipt of \$1 billion in federal funds due to recent congressional tax-cut legislation, including \$500 million due to an increase in the federal cost-sharing ratio for the Medi-Cal Program and \$500 million from flexible grants to states that was budgeted to offset the costs of various health and social services programs.



Judicial and Criminal Justice Programs

- Restores \$40 million of the Governor's proposed \$140 million reduction to the court budget.
- Reduces spending for corrections by about \$28 million below the Governor's proposal by eliminating over 450 management/supervisory positions. Also, redirects funding from the High Technology Grants program (\$18 million) to restore funding for local correctional officer training.



Major Features

(continued)



Transportation

- Rejects Governor's proposal to transfer only \$207 million from the General Fund to the Transportation Investment Fund (TIF) under Proposition 42 and to retain \$938 million in the General Fund. Instead, transfers the full amount of \$1,145 million to TIF and loans \$500 million back to the General Fund, to be repaid by June 30, 2009.



State Administration

- Assumes Governor's proposed General Fund savings of \$470 million in reduced state employee compensation costs, and ties the savings to a golden handshake retirement program included in AB 375 (Bermudez).



Local Government

- Assumes no vehicle license fee (VLF) backfill for realignment or general local government purposes. Assumes VLF "trigger" is pulled, with local government impact dependent on when VLF rate returns to 2 percent level.
- Rejects Governor's proposal to transfer \$250 million from redevelopment agencies to ERAF.
- Defers funding—or suspends the requirement for local governments to implement—most local government mandates. Did not approve Governor's proposal related to the Open Meetings Act.
- Accepts Governor's May Revision proposal to continue to fund local property tax subventions for open space protection at a budgeted cost of \$40.1 million.
- Rejects Governor's proposal to eliminate \$38 million for local government booking fees.



Major Assembly Actions K-12 Education—Proposition 98

General Fund (In Millions)

	May Revision	Assembly	Difference
Child care	\$1,239	\$1,246	\$7
Adult education	568	578	9
Revenue limit:			
Growth	504	504	—
Increased PERS ^a costs	459	459	—
Cost-of-living adjustment	—	—	—
Base reduction	-350	-350	—
Regional Occupation Centers/Programs	354	370	16
Instructional materials	175	150	-25
Deferred maintenance	77	25	-52
Peer Assistance Review	62	85	23
School library materials	9	15	6
Healthy Start	2	10	8
Early Mental Health	—	10	10
Local Arts Education Grant Program	—	6	6
Basic aid district categorical offset	-20	-8	12

^a Public Employees' Retirement System.

- ☒ The Assembly version spends \$27.6 billion from the General Fund for Proposition 98 K-12 programs, the same as the May Revision.
- ☒ The Assembly version provides \$6,884 in Proposition 98 per pupil. This is \$199 or 2.8 percent below the *2002-03 Budget Act*.
- ☒ The Assembly approved the Governor's proposals to continue the principal apportionment deferral approved in SB 18x (Chesbro), and provide no equalization funding.
- ☒ The Assembly approved trailer bill language to allow school districts to transfer up to 50 percent of their restricted categorical reserves to their general funds. However, the Assembly rejected language to reduce required reserves and to lower maintenance funding requirements.



Major Assembly Actions Higher Education

(In Millions)

	2002-03 Enacted	2003-04 May Revision	2003-04 Assembly	
			Amount	Change From 2002-03
General Fund				
University of California (UC)	\$3,223.9	\$3,040.2	\$3,004.1	-6.8%
California State University (CSU)	2,680.3	2,576.9	2,523.1	-5.9
California Community Colleges (CCC) ^a	2,755.3	2,246.1	2,487.7	-9.7
General Fund, Student Fees ^b , and Local Property Taxes				
UC	\$3,732.0	\$3,795.2	\$3,759.2	0.7%
CSU	3,234.3	3,301.5	3,247.8	0.4
CCC ^a	4,937.7	4,633.7	4,828.3	-2.2
^a Includes \$210 million payment to be deferred to July 2004.				
^b Does not include student fee revenue diverted to financial aid.				



The Assembly adopted unallocated reductions to UC and CSU beyond those proposed by the Governor. It is assumed that a substantial portion of these reductions will be backfilled by student fee increases of about 25 percent. The Assembly increased student fees at CCC from \$11 to \$15 per unit, which is less than the \$18 level proposed in the May Revision.



The Assembly adopted the Governor's proposal to fund 7 percent enrollment growth at UC and CSU. The Assembly version reflects a 1 percent reduction in enrollment at CCC, which is about one-third the reduction proposed in the May Revision.



Assembly funding for CCC's 2003-04 programmatic costs includes \$210 million that is appropriated in 2004-05. This funding "shift" permits a lower 2003-04 Proposition 98 appropriation.



Major Assembly Actions Social Services Programs

General Fund (In Millions)

Program/Department/Issue	Difference From May Revision
CalWORKs	
Augmented employment services	\$35.0 ^a
Eliminated Statewide Fingerprint Imaging System	-10.4 ^a
Food Stamps	
Adopted various eligibility expansions and administrative simplifications	\$10.8
Foster Care/Child Welfare Services	
Deleted funding for start-up of Program Improvement Plan	-\$28.0 ^a
Department of Child Support Services	
Rejected proposed 25 percent county share for automation penalty	\$51.8
Department of Rehabilitation	
Rejected 5 percent rate reduction for Work Activity and Supported Employment Programs	\$6.3
Provided statutory rate adjustment	9.7
Department of Aging	
Partially restored Senior Companion Program	\$1.0
Partially restored Foster Grand Parent Program	0.5
Restored Brown Bag Program funding	0.9
Restored Senior Nutrition Program	2.9
Total	\$80.5^a

^a Includes federal Temporary Assistance for Needy Families (TANF) block grant funds.

- ☒ Compared to the May Revision for 2003-04, the Assembly increased General Fund spending on social services by about 0.3 percent.
- ☒ Compared to 2002-03, the Assembly increased General Fund spending on social services by about 2.8 percent, excluding the impact of realignment.



Major Assembly Actions Health Programs

The budget adopted by the Assembly provides a net increase of about \$916 million General Fund for health programs above the funding level proposed in the May Revision spending plan. The Assembly budget plan also assumes the receipt of \$1 billion in federal funds due to recent congressional tax-cut legislation, including \$500 million specifically for increased Medicaid cost-sharing ratios, and \$500 million for a flexible grant that was budgeted to offset the costs of various health and social services programs. In addition to these funding adjustments, the key Assembly changes are summarized below.

General Fund (In Millions)

	Change From May Revision
Medi-Cal	
Rejected 15 percent provider rate reduction for physicians, nursing homes, and managed care	\$607.3
Rejected elimination of some optional benefits for adults	209.7
Rejected rollback of aged and disabled eligibility expansion	49.9
Rejected reinstatement of quarterly status reporting for parents (see related action below)	38.9
Replaced proposed moratorium on adult day health centers with plan to manage their growth to achieve savings in 2004-05	9.9
Rejected the elimination of second year of transitional benefits	2.0
Assumed savings on purchases of anti-hemophiliac blood factor, durable medical equipment, laboratory services and supplies but sent implementation bills to conference	No net change
Adopted managed care quality improvement fee but sent implementation bill to conference	No net change
Assumed additional savings from semi-annual status reporting for parents	-42.5
Assumed additional savings from dental services cost containment	-27.4
Assumed savings from county eligibility work standards but modified implementing legislation	-5.7
Public Health	
Rejected copayments for AIDS Drugs Assistance Program, assumed greater federal drug rebates, and augmented funding for services	\$18.3
Rejected 15 percent provider rate reduction for California Children's Services, Genetically Handicapped Persons Program, and Child Health and Disability Prevention program	7.3
Shifted Proposition 50 water security grant funds from DHS to Department of Water Resources	-10.3
Emergency Medical Services Authority	
Continued funding for trauma care centers (including Medi-Cal component)	\$15.1
Department of Mental Health	
Rejected 10 percent cut to counties for mental health managed care	\$23.0
Partly restored funding for Early Mental Health Initiative	10.0
Department of Developmental Services	
Rejected implementation of statewide purchasing standards for Regional Centers	\$50.0
Department of Alcohol and Drug Programs	
Rejected reduction in discretionary alcohol or drug treatment services	\$11.5



Major Assembly Actions Judicial and Criminal Justice Programs

General Fund (In Millions)

Department/Program	Governor	Assembly	Difference
Trial Court Funding			
Reduced operations costs	-\$116.0	-\$85.0	\$31.0
Rejected electronic reporting	-36.0	36.0	36.0
Rejected court security flexibility	-22.0	22.0	22.0
Department of Corrections			
Reduced inmate academic and vocational programs	-\$35.0	-\$35.0	—
Adopted closure of Northern California Women's Facility	-10.2	-10.2	—
Enacted inmate health care efficiency savings	-13.0	-13.0	—
Delayed opening of Delano II Prison	-8.8	-8.8	—
Delayed 500 substance abuse beds	-5.4	-5.4	—
Adopted population adjustment	59.0	59.0	—
Enacted position reductions	-7.6	-35.5	-\$27.9
Youth Authority			
Adopted closure of Karl Holton Correctional Facility	-\$3.0	-\$3.0	—
Increased county sliding fee for inflation	-6.0	-6.2	-\$0.2
Board of Prison Terms			
Enacted workload adjustment	-\$3.5	-\$3.5	—
Juvenile Justice			
Approved juvenile justice grants	\$116.3	\$116.3	—
Local Law Enforcement			
Approved Citizens' Option for Public Safety program	\$116.3	\$116.3	—
Eliminated high technology grants	—	-18.5	-\$18.5

- ☒ Reduced General Fund spending for court operations by \$85 million.
- ☒ Reduced funding for inmate academic and vocational programs by \$35 million.
- ☒ Eliminated over 450 positions in the Department of Corrections for a savings of \$35.5 million.
- ☒ Eliminated funding for the High Technology Grants program and redirected funds to support training for local correctional officers.
- ☒ Provided full funding for the Citizens' Option for Public Safety program and the Juvenile Justice Crime Prevention Act program.



Major Assembly Actions Resources

Various Funds (In Millions)

Issue	Governor	Assembly	Difference
CALFED Bay-Delta Program	\$499.6	\$516.5	\$16.9
Selected Proposition 40 appropriations:			
• Historic and cultural endowment—State Library	128.4	128.4	—
• State park acquisition	35.0	35.0	—
Selected Proposition 50 appropriations:			
• Wildlife Conservation Board—capital outlay	352.0	352.0	—
• Integrated regional water management grants (Department of Water Resources)	51.7	51.7	—
• Desalination	15.0	25.0	10.0
• Colorado River/Salton Sea restoration	32.5	32.5	—
• Habitat Conservation Fund	22.2	22.2	—
• Water security	15.1	15.1 ^a	—
Increase state park fees to offset General Fund reduction	20.0	20.0	—
Off-highway vehicle capital outlay projects	30.6	52.6	22.0
Conservation Corps program reduction	-11.6	-8.4	3.2
Increase fishing and hunting fees	4.0	4.0	—
Suspension of Natural Heritage Preservation tax credit	-8.7	-8.7	—
Loans from beverage recycling funds to General Fund	154.0	154.0	—
Transfer from Colorado River Management Account to General Fund	—	38.8	38.8

^a The Assembly approved all of this amount for the Department of Water Resources (DWR), while the Governor proposed \$10.3 million for the Department of Health Services and \$4.8 million for DWR.

- ☒ The Assembly provided a total of \$587.4 million from Proposition 40 bond funds for various resources and environmental protection programs, essentially the same amount proposed by the Governor.
- ☒ The Assembly provided a total of about \$1.16 billion from Proposition 50 bond funds for various resources and environmental protection programs—a modest increase above the Governor's proposal.
- ☒ The Assembly adopted the Governor's proposal to increase the fee on dam owners to cover a larger portion of the state costs of the Department of Water Resources' dam safety program. This saves the General Fund \$4.7 million in the budget year.



Major Assembly Actions Environmental Protection

Various Funds (In Millions)

Issue	Governor	Assembly	Difference
General Fund Expenditures Replaced by Fee Revenues			
• Department of Pesticide Regulation	-\$13.8	-\$10.5	\$3.3
• Air Resources Board—stationary source program	-10.0	-10.0	—
• Water Resources Control Board—core regulatory program	-13.6	-13.6	—
Integrated Waste Management Board structure reductions	—	-0.7	-0.7
Loans from various Integrated Waste Management Accounts	17.0	28.5	11.5

- ☒ The Assembly adopted the Governor's January 10 proposal in the Department of Pesticide Regulation to shift \$10.5 million from the General Fund to fees (mainly the mill assessment on the sale of pesticides), but rejected the Governor's April proposal to restore \$3.3 million in programs with additional fee revenues.
- ☒ The Assembly adopted the Governor's proposal to shift \$10 million from the General Fund to fees in the Air Resources Board's stationary source program.
- ☒ The Assembly reduced funding of the Integrated Waste Management Board by \$685,000, by reducing staff to individual board members.
- ☒ The Assembly increased the amount of loans to the General Fund from various special funds in the Integrated Waste Management Board by \$11.5 million over the Governor's proposal—for a total loan amount of \$28.5 million.



Major Assembly Actions Transportation

Various Funds (In Millions)

Issue	Governor	Assembly	Difference
Transportation Investment Fund (TIF) loan to General Fund	\$938.4	\$500.0	-\$438.4
Transportation design and engineering	1,235.9	1,248.7	12.8
State Transit Assistance	100.4	132.0	31.6
Motor Vehicle Account fee increase	163.0	—	-163.0



TIF Loan. The Assembly rejected the Governor's proposal to transfer only \$207 million from the General Fund to the Transportation Investment Fund (TIF) under Proposition 42 and to retain \$938 million in the General Fund. Instead, the Assembly transferred the full amount—estimated at \$1,145 million—to the TIF and then loaned \$500 million back to the General Fund, to be repaid by June 30, 2009. Additionally, the Assembly rejected the Governor's proposal to deposit in the General Fund \$87 million in "spillover" revenue that otherwise would accrue to the Public Transportation Account (PTA). Instead, the Assembly deposited the spillover revenue in the TIF. The net effect of these Assembly actions would leave \$733 million available in the TIF to fund various transportation programs, including \$459 million for projects in the Traffic Congestion Relief Program (TCRP).



Transportation Design and Engineering. The Assembly added \$12.8 million to the Governor's proposal to fund the design and engineering of transportation projects to reflect the extra money the Assembly provided for TCRP projects.



State Transit Assistance. The Assembly denied a May Revision proposal to cap funding for State Transit Assistance (STA) to transit operators at \$100.4 million. Instead, the Assembly approved total funding of \$104.6 million for STA. In addition, because STA will receive half of the TIF money allocated to the PTA under Proposition 42, the Assembly actions would result in total STA funding of \$132 million in 2003-04.



Motor Vehicle Account. The Assembly denied the administration's proposals to increase fees to the Motor Vehicle Account (MVA), which would have generated \$163 million in 2003-04 and \$333 million annually thereafter. In addition, the Assembly rejected the Governor's proposals to shift a total of \$120 million in California Highway Patrol (CHP) expenditures from the MVA to various special funds. The net effect of these actions is a projected MVA deficit of \$219 million in the budget year.



Major Assembly Actions State Administration

(In Millions)

Issue	May Revision	Assembly	Difference
State employee compensation	-\$470.0	-\$470.0	—
Increased workers' compensation assessments	-107.0	—	\$107.0
Renegotiation of state contracts	-50.0	-50.0	—
Workers' compensation reforms (state savings)	-30.0	-30.0	—
Fair Employment and Housing	12.6	14.8	2.2
Film California First program	8.2	6.0	-2.2
Arts Council	6.5	8.0	1.5
Emergency housing assistance grants	4.0	5.3	1.3
Foreign trade offices	3.8	1.5	-2.3
Tourism Commission	2.5	6.8	4.3
Cesar Chavez Day of Learning grants	—	5.0	5.0
California Technology Investment Partnership	—	2.0	2.0

- ☒ The Assembly assumed the Governor's proposed savings of \$470 million General Fund from reduced state employee compensation costs and tied savings to a golden handshake retirement program included in AB 375 (Bermudez).
- ☒ The Assembly also assumed savings from workers' compensation reforms (\$30 million General Fund) and renegotiation of state contracts (\$50 million General Fund).
- ☒ The Assembly rejected the Governor's proposals to shift General Fund costs for administering workers' compensation to increased assessments (\$107 million).
- ☒ The Assembly adopted trailer bill language to (1) create the Ratepayer Relief Fund for the deposit of electricity settlement funds and (2) eliminate the Teleconnect Program, which provides subsidies for telecommunications services.



General Fund Spending Trends

(Dollars in Millions)

	Current Dollars		Constant Dollars	
	Amount	Percent Change	Amount	Percent Change
1993-94	\$38,958	—	\$38,958	—
1994-95	41,961	7.7%	40,730	4.5%
1995-96	45,393	8.2	43,010	5.6
1996-97	49,088	8.1	45,415	5.6
1997-98	52,874	7.7	47,867	5.4
1998-99	57,827	9.4	51,333	7.2
1999-00	66,494	15.0	56,816	10.7
2000-01	78,053	17.4	64,133	12.9
2001-02	76,752	-1.7	62,324	-2.8
2002-03				
Governor's budget (May Revision)	\$78,056	1.7%	\$62,221	-0.2%
Assembly version	\$78,036	1.7%	\$62,205	-0.2%
2003-04				
Governor's budget (May Revision)	\$70,433	-9.8%	\$55,059	-11.5%
Assembly version	\$71,965	-7.8%	\$56,257	-9.6%



In the Assembly version of the budget, General Fund spending in the current year is \$78.0 billion, which is a 1.7 percent increase from 2001-02. In constant-dollar terms, spending declines slightly in the current year.



General Fund spending in the budget year is \$72.0 billion as proposed by the Assembly version of the budget. This spending level is a 7.8 percent reduction from 2002-03, and a 9.6 percent decrease in constant-dollar terms.



The budget-year amount reflects program savings, elimination of the VLF backfill, issuance of pension obligation bonds, realignment of certain programs to local governments, accounting changes, and the use of federal funds.



General Fund spending grew moderately during the mid-1990s, and grew rapidly at the end of the decade. Budget-year expenditures are proposed at a level below 2000-01 expenditures.